

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3181-14  
Bill No.: Truly Agreed To And Finally Passed CCS for SCS for HCS for HB 1270 & 1027  
Subject: Agriculture and Animals; Motor Fuel; Roads and Highways  
Type: Original  
Date: May 22, 2006

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### **FISCAL ANALYSIS**

#### **ASSUMPTION**

In response to a similar proposal officials from the **Department of Agriculture (AGR)** assume the AGR Fuel Quality Program will monitor the ethanol content at retail. Additional time will be required of the program to ensure service stations properly prepare storage tanks for the introduction of ethanol blends. AGR's fuel quality program will attempt to absorb the extra workload this part of the proposal will create. However, additional chemists and field inspection staff may be required to assist in resolving consumer complaints and fuel quality problems from inadequate tank preparation and conversion.

AGR will be required to do an annual report for the governor and general assembly. AGR will audit locations selling gasoline with less than 9.2% ethanol to ensure compliance.

**Oversight** assumes this would be accomplished during the normal budgetary process. Therefore, Oversight assumes the initial administrative impact of this proposal is \$0.

Officials from the **Department of Revenue (DOR)** assume this proposal requires all fuel sold in Missouri after January 1, 2008 to be ethanol blended unless it is specifically exempted by subsection 4 and/or 5. The Department of Agriculture is given authority by rule to exempt additional uses and rescind any exemption. This version allows the director of AG in consultation with DNR, to waive the requirements.

ASSUMPTION (continued)

No significant impact if ethanol is taxed at the rack or upon first sale, minor forms and programming changes. If DOR needs to register all retail locations and require them to file monthly reports they would need 2-3 additional FTE to license all of them and key their monthly reports. Current distributor reporting forms can be used and therefore, no forms changes or changes to the FACS system would be needed.

Officials from the **Department of Transportation** assume no fiscal impact to their agency. The state fuel tax for gasoline and gasohol is 17 cents per gallon, and Congress has recently adjusted the federal gasohol rate to equal the federal gasoline rate that is attributed to the Highway Trust Fund.

Officials from the **Department of Natural Resources (DNR)** assume this proposal would be known as the "Missouri Renewable Fuel Standard Act."

This proposal would require that all gasoline sold on or before January 1, 2008 be blended with at least 10% ethanol. This proposal would remain in place unless EPA or the Missouri Department of Agriculture declared an exemption.

The director of the Department of Agriculture may by rule exempt or rescind additional gasoline uses from the requirements of this section. The Governor may by executive order waive the requirements of this section or any part thereof in part or in whole for all or any portion of this state for reasons related to air quality. Any regional waiver would be issued and implemented in such a way as to minimize putting any region of the state at a competitive advantage or disadvantage with any other region of the state.

If a distributor is unable to obtain fuel ethanol or fuel ethanol-blended gasoline from a position holder or supplier at the terminal at the same or lower price as unblended gasoline, then the purchase of unblended gasoline by the distributor and the sale of the unblended gasoline at retail would not be deemed a violation of this section.

The Department's Energy Center monitors fuel supplies and prices and makes this information available to the public and state and federal officials, and conducts energy supply assessments in response to supply shortages.

This proposal would require that 100% of gasoline sold on or before January 1, 2008 be blended with at least 10% ethanol.

ASSUMPTION (continued)

The St. Louis metropolitan area is currently an EPA designated ozone nonattainment area and Kansas City has been identified by EPA as an ozone maintenance area. Some studies have shown, while ethanol is generally a cleaner burning fuel than petroleum based gasoline, that additional use of ethanol can increase the amount of ozone precursor emissions in certain limited instances. This proposal states the director of the Department of Agriculture may by rule exempt or rescind additional gasoline uses from the requirements of this section. The Governor may by executive order waive the requirements of this section or any part thereof in part or in whole for all or any portion of this state for reasons related to air quality. Any regional waiver would be issued and implemented in such a way as to minimize putting any region of the state at a competitive advantage or disadvantage with any other region of the

The Department's Energy Center monitors fuel supplies and prices and makes this information available to the public and state and federal officials, and conducts energy supply assessments in response to supply shortages.

The department would not anticipate a direct fiscal impact from this proposal.

Biodiesel Producer

Officials from the **Department of Agriculture** and **State Treasurer's Office** assume there will be no fiscal impact to their agency.

The department would not anticipate a direct fiscal impact from this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>
<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>

FISCAL IMPACT - Small Business

Yes, if they are required to blend the product.

### FISCAL IMPACT - Small Business (continued)

According to a study conducted by the University of Missouri, by 2006 there would be significant direct and indirect economic benefits to five ethanol plants in Missouri including processing and adding value to Missouri corn, the creation of new jobs, and an increase in total value added to the Missouri economy.

There could be some conversion issues for marketers of the product. In general, tanks, pumps, lines, and dispensers that are currently used for gasoline can be used for ethanol blend without any modification. There may need to be some precautions taken that include cleaning and labeling of tanks.

### DESCRIPTION

This bill establishes the Missouri Renewal Fuel Standard Act which requires, by January 1, 2008, that all gasoline sold in Missouri contain at least 10% agriculturally derived, denatured ethanol by volume unless exempted by the federal Environmental Protection Agency, by a rule promulgated by the Director of the Department of Agriculture, or by an executive order issued by the Governor. Any regional waiver will be implemented so as not to give any region a competitive advantage or disadvantage. The provisions of the bill do not apply to premium gasoline, E75-E85 fuel ethanol, bulk transfers between terminals, or gasoline sold for use in aircraft.

If a distributor is unable to purchase fuel ethanol or fuel ethanol-blended gasoline at the terminal from a position holder or supplier at the same or a lower price as unblended gasoline, the purchase of unblended gasoline by the distributor and the sale of the gasoline at retail will not be a violation of the gasoline-content requirement.

All fuel terminals in the state except terminals that only offer federal reformulated gasoline for sale must offer fuel ethanol, fuel ethanol-blended gasoline, and unblended gasoline.

Fuel retailers, wholesalers, distributors, and marketers are allowed to purchase fuel ethanol from any terminal, position holder, fuel ethanol producer, fuel ethanol wholesaler, or supplier. If a court of competent jurisdiction determines that this provision does not apply to or improperly impairs existing contractual relationships, it will apply only to future relationships.

A "Missouri qualified biodiesel producer" is defined as a facility that is at least 51% owned by Missouri resident agricultural producers who are actively engaged in agricultural production for commercial purposes or a facility that uses at least 80% Missouri feedstock in the production of biodiesel. The feedstock requirement may be waived by the Director of the Department of

DESCRIPTION (continued)

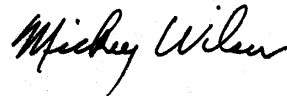
Agriculture on a month to month basis if the facility provides verification that an adequate supply of Missouri feedstock is not available.

The Missouri Qualified Biodiesel Incentive Fund will expire December 31, 2009. Producers receiving incentive grants prior to the expiration date will be eligible to receive all remaining incentive grants as provided by the program's provisions.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Agriculture  
Department of Revenue  
Department of Transportation  
Department of Natural Resources  
State Treasurer's Office



Mickey Wilson, CPA  
Director  
May 22, 2006